

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: November 3, 2015

PAYROLL LETTER #15-015

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Debra Spellman, Acting Chief
Personnel/Payroll Services DivisionRE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the following tax year. The SAP helps reduce late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

For employees receiving **non-cash** values in November 2015, PPSD must receive the Form STD. 676V by December 02, 2015. This will ensure the taxable gross and Social Security/Medicare amounts for **non-cash** values will be on the 2015 Form W-2. When the Form STD. 676V is received after December 02, 2015, a corrected W-2 issues.

GENERAL INFORMATION

The letter provides reporting instructions for **non-cash**, taxable fringe benefit values that employees receive in December 2015, and a sample notification letter to employees regarding SAP provisions, (**Payroll Procedures Manual (PPM) Section N-175 and Payroll Letter # 15-013 for 2015 reporting cutoff dates**).

SPECIAL REPORTING INSTRUCTIONS

Complete the **Form STD. 676V Non-USPS Adjustment Request - Values (Fringe Benefit/Employee Business Expense)** using PPM Section N-172.2 procedures. When completing column 9 (issue date), **enter 01/01/16 for all non-cash values that employees receive during December 2015**. The 2016 Form W-2 will reflect these **non-cash** values.

NOTE: Fringe benefits reported in November will not have Federal and State income taxes withheld from the December warrant. See PPM Section Z Attachment N-2 for additional information on the fringe benefit processing under the SAP.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service **requires** employers (agencies/campuses) to:

- 1) notify affected employees of SAP reporting provisions;

- 2) instruct employees to use the same SAP (for value-based benefits received December 2014 through November 2015) when filing personal income tax returns; and
- 3) notify employees of the **SAP no sooner than the receipt of the last paycheck of the calendar year and no later than release of the employee's W-2**

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

REMINDER

The State's goal is that all employers (agencies/campuses) comply with federal and state employment tax regulations. This requires each agency/campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate, and comprehensive basis. Accurate reporting means proper completion of reporting documents. Comprehensive reporting means that your agency/campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N-120 to 175 and corresponding Payroll Letters. By complying with these requirements, your agency/campus prevents fines, penalties, and assessments levied by tax authorities. Complying with these requirements may prevent costs stemming from retroactivity and corrected Forms W-2.

CONTACTS

For assistance with payroll-related issues, agencies, and campuses, contact the Customer Contact Center at (916) 372-7200. For questions regarding the Special Accounting Period (SAP), please contact John Ochoa at jochoa@sco.ca.gov.

DS: JD: JO: TSS

ATTACHMENT

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 7, 2016

Dear State Employee,

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the following tax year. The SAP reduces late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2015, your 2015 Form W-2 will show **non-cash** values reported by your employing agency/campus that you received in December 2014 through November 2015.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP, the following non-cash taxable values are affected:

Value of State Housing	Lottery Sales Recognition
Educational Assistance Program	Rideshare Incentive Award Program
Dues and Memberships	Personal Use of State Vehicle
Loan Assumption Program	Car/Vanpool
Group-Term Life Insurance (Legislators)	Forgivable Loan/Doctoral Incentive Program
Loan Forgiveness Program	Tickets
Out-Placement	Merit Award Program (non-cash)
Scholarships (Fee Waiver Program)	Commuter Highway Vehicle
Vehicle Provided by Third Parties	Uniform Allowance
Miscellaneous Incentive Program	Discount Travel/Transit Pass (non-cash)
Overtime Meal Compensation	Electronic Devices
(i.e., Meal Tickets)	Incentive Provided by Third Parties (non-cash)

IRS REQUIREMENTS

IRS **requires** that employees use the same accounting period (December through November) when filing tax returns. Employees who itemize deductions related to **non-cash**, taxable values received in December 2015, would report these values in the following tax year (2016).

QUESTIONS

If you have any questions regarding the Special Accounting Period (SAP), please contact your Personnel/Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**